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Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 CEA-01 CIAE-00 COME-00
DODE-00 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 EPG-02 AID-05 SS-15 STR-04
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01
AGR-05 AF-10 ARA-06 EA-07 NEA-10 OIC-02 /141 R

DRAFTED BY EB/OT/TA:JRCUNNINGHAM:JVM
APPROVED BY EB/OT:WGBARRACLOUGH
EUR/EE:GBOUTIN (INFO)
EB/EWT:PBLAKEBURN
STR:ELAPP (SUBS.)
TREASURY:WBARREDA (SUBS.)
AGRICULTURE:RNEETZ (SUBS.)
COMMERCE:FHOWELL (SUBS.)
EUR/RPE:RBRESLER
EUR/NE:RWOODS
----------072227Z 078671 /61
R 070010Z MAY 77
FM SECSTATE WASHDC
TO USMISSION GENEVA
INFO AMEMBASSY HELSINKI
AMEMBASSY BUDAPEST

C O N F I D E N T I A L STATE 104261

E.O. 11652: GDS

TAGS: GATT, ETRD, IHU, FI

SUBJECT: GATT WP ON FINLAND-HUNGARIAN FREE TRADE AGREEMENT

REFS: (A) GENEVA 2547, (B) BUDAPEST 1455,(C) GENEVA 3222

1. WE CONCUR WITH YOUR ASSESSMENT THAT IT IS UNLIKELY
WP WILL BE ABLE TO REACH A CONCLUSION. AS PREVIOUSLY
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NOTED, THE U.S. HAS SERIOUS QUESTIONS A0OUT THE AGREEMENT'S
CONSISTENCY WITH ARTICLE XXIV. YOU SHOULD MAINTAIN POSITION
THAT WE ARE QTE NOT ABLE TO EXPRESS A VIEW ON THE BASIS
OF AVAILABLE INFORMATION. UNQTE.

2. IF APPROPRIATE, YOU MAY UTILIZE THE RESPONSE IN
STATE 26100 TO QUESTION 35 OF THE FINNISH-GDR WP OR EXPAND

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IT TO INCLUDE PHRASE: THE INTENSIVE EXAMINATION REQUIRES A LONGER TIME PERIOD DUE TO THE NOVEL NATURE OF THE QUESTIONS RAISED, AND THE LIMITED PERIOD DURING WHICH THE AGREEMENT HAS BEEN IN OPERATION.

3. AS INDICATED IN REF B. THE LACK OF DATA ON HUNGARIAN LAW MAKES IT DIFFICULT TO SUPPLY SPECIFIC QUESTIONS AS REQUESTED IN GENEVA 2547. FURTHER, L/4492 AND L/4488/ADD. 1 HAVE NOT YET REACHED US, LIMITING OUR ABILITY TO PREPARE MORE DETAILED QUESTIONS.

YOU MAY DRAW ON ANY OF THE FOLLOWING AS NECESSARY OR APPROPRIATE:

1. L/4488 INDICATES THAT HUNGARIAN IMPORTS FROM FINLAND INCREASED 41 PERCENT FROM 1974 TO 1975. TRADE WITH ALL OTHER NON-CEMA COUNTRIES INCREASED ONLY 3.5 PERCENT. DOES THIS INDICATE A TRADE DIVERSION RATHER THAN A TRADE CREATION EFFECT?

2. AN ARTICLE PRINTED IN KULGAZDASAG (REF. B) STATES THAT FOR SOME HUNGARIAN FIRMS EXPORT PRICES ARE ESTABLISH-ED, NOT BY COST OF PRODUCTION BUT BY A CALCULATION BASED ON THE WORLD MARKET PRICE - THE LIMIT PRICE. THIS INDICATES THAT CUSTOMS DUTIES - THE ONLY ITEM COVERED BY THE FTA - ARE NOT THE ONLY RELEVANT INSTRUMENT OF FOREIGN TRADE POLICY. THIS QUESTION WAS RAISED IN THE LAST WORKING PARTY (PARAGRAPH 7 OF L/4230) BUT THERE WAS NO RESPONSE. ON THE IMPORT SIDE, THE HUNGARIAN CONFIDENTIAL

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DELEGATE STATED (PARAGRAPH 13 OF L/4230) "NO SUCH CIRCUMSTANCES EXIST WHICH COULD GIVE RISE TO DOUBTS AS TO THE POSSIBILITY OF HUNGARIAN ENTERPRISES TO MAKE THEIR CHOICE TAKING EXCLUSIVELY INTO ACCOUNT THE EXISTENCE OR NON-EXISTENCE OF TARIFFS." PARAGRAPH 2 OF REF. 1455 POINT A. INDICATES THAT AFTER "LIMIT" PRICES ARE ESTABLISHED ON THE FINAL PRODUCT THE INPUT PRICES ARE ADJUSTED TO MEET THE DESIRED COST OF PRODUCTION. THE TWO SEEM MUTUALLY EXCLUSIVE. CAN HUNGARY PROVIDE A RECONCILIATION?

3. IN THE EVENT A PRODUCER USES IMPORTS FROM FINLAND IN INTERMEDIATE MANUFACTURING STAGES, HOW IS THE "LIMIT" PRICE FOR THE FINAL GOOD DETERMINED?

4. HOW DOES THE SETTING OF "LIMIT"PRICES AFFECT FAIR COMPETITION IN EXTERNAL MARKETS?

5. IF ONE PARTNER TO A FTA ESTABLISHES SELLING

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PRICES WITHOUT REFERENCE TO PRODUCTION COSTS AND THE
OTHER PARTNER IS OBLIGATED TO ACCEPT SUCH GOODS WITHOUT
DUTY, IS THIS NOT DISCRIMINATORY TO THIRD PARTY
ATTEMPTS TO TRADE WITH THE IMPORTING COUNTRY?

6. HOW IS IT POSSIBLE FOR THE GATT TO EVALUATE
A TRADING ARRANGEMENT WITH A CPE WHEN THE SPECIFIC
CRITERIA WHICH GOVERN SUCH CRUCIAL AREAS AS LEVELS OF
IMPORT AND EXPORT SUBSIDIES ARE UNKNOWN TO IT?

7. ARTICLE 5 ENVISAGED THE ENLARGEMENT OF AGRICULTURAL
COVERAGE. HAS THIS TAKEN PLACE? IF TRADE IS SO
CONCENTRATED AS TO ALLOW THE NARROW PRODUCT COVERAGE
TO ENCOMPASS A HIGH PERCENTAGE OF TOTAL VALUE OF
AGRICULTURAL TRADE, WHY WAS IT FELT NECESSARY TO LIMIT
THE COVERAGE SO SEVERELY?

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8. WHAT ACCOUNTS FOR THE 85 PERCENT DECREASE IN HUNGARIAN
IMPORTS OF FINNISH AGRICULTURAL GOODS,PARTICULARLY
MEAT?

9. WHAT NON-TARIFF OBSTACLES HAVE BEEN ELIMINATED SINCE
THE AGREEMENT BECAME EFFECTIVE?

10. WHAT HAS BEEN THE EFFECT OF THE STAGED REDUCTIONS?
IS ALL TRADE EXCEPT AS INDICATED IN PROTOCOL 2 NOW "FREE"?

11. HOW DO THE MEASURES ADOPTED BY THE GOF TO CONTROL
IMPORTS IN GENERAL; IMPORT RESTRICTIONS, CREDIT
RESTRICTIONS, ETC. CONFORM WITH ARTICLE 5 AND 6 OF THE
FT AGREEMENT?

12. DOES SECTION C OF THE IMPORT SYSTEM OF FINLAND,
MEAN THAT GOODS FROM COUNTRIES OTHER THAN HUNGARY OR
OTHER KEVSOS ARE SUBJECT TO DISCRIMINATION NOT ONLY
BY TARIFF DISCRIMINATION BUT ALSO QUOTA DISCRIMINATION?
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